RESULTS ANNOUNCEMENT

financial results and dividend announcement

For the year ended 30 June 2016

FNB
First National Bank
how can we help you?

BASIS OF PRESENTATION **AND ACCOUNTING POLICIES**

The summarised consolidated financial results have been prepared in terms of International Accounting Standard 34 ("IAS 34") - Interim Financial Reporting, and applying the recognition and measurement criteria in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

In preparing the underlying consolidated financial statements from which these summarised consolidated financial results were extracted, all relevant and applicable International Financial Reporting Standards and International Reporting Interpretations Committee interpretations issued and effective for annual periods ended 30 June 2016 have been applied.

The Group's underlying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and in compliance with the Companies Act of Botswana (Companies Act, 2003) and the Banking Act (Cap 46:04). The principal accounting policies are consistent in all material aspects with those adopted in the previous years' consolidated financial statements. In the preparation of the summarised consolidated financial results, the Group has applied key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the summarised consolidated financial results for the year ended 30 June 2015. The assumptions and estimates are subject to ongoing review and possible amendments. The critical accounting estimates and areas of judgements are on the following elements of the consolidated financial statements:

- Credit impairment losses on loans and advances;
- Income taxes;
- Impairment of goodwill;
- Residual values and useful lives of property and equipment;
- Revenue recognition; and
- Fair valuation of financial instruments.

Key performance indicators

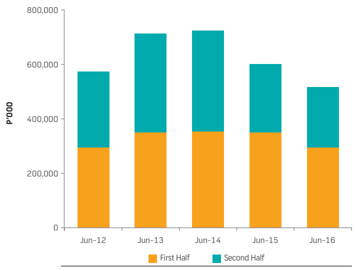
For the year ended 30 June 2016

The Directors have pleasure in announcing the audited summarised consolidated financial results and dividend announcement of First National Bank of Botswana Limited (the Company or Bank) and its subsidiaries (the Group) for the year ended 30 June 2016.

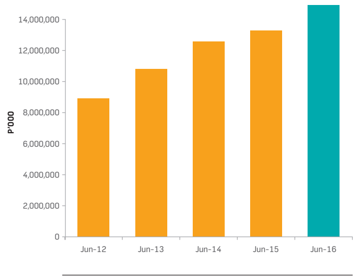
FINANCIAL **HIGHLIGHTS**

	Year ended Audited 30 June 2016	Year ended Audited 30 June 2015	% change
Profit before tax (P'000)	659,012	756,503	(13)
Profit after tax (P'000)	503,891	591,483	(15)
Non-interest income (P'000)	926,949	862,386	7
Advances to customers (P'000)	14,386,819	12,846,481	12
Ratios			
Cost-to-income ratio (%)	52.6	44.8	17
Return on average equity (%)	20.2	25.0	(19)
Return on average assets (%)	2.4	3.1	(23)

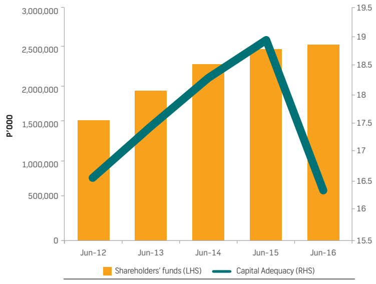
Profit After Tax



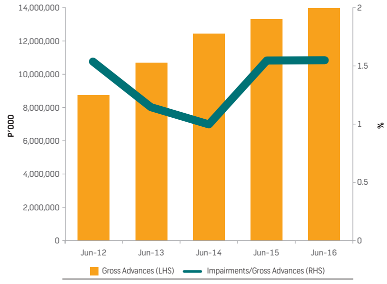
Loans and Advances



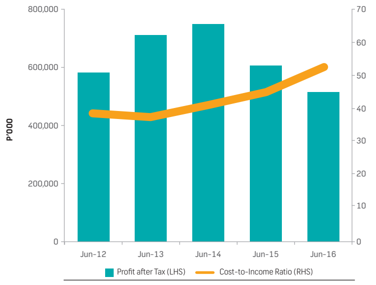
Shareholders' Funds vs Capital Adequacy



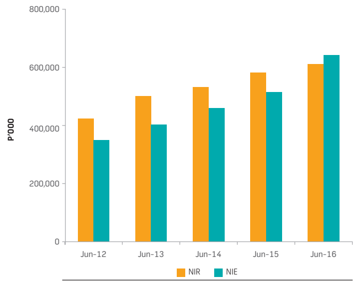
Advances vs Impairments to Gross Advances



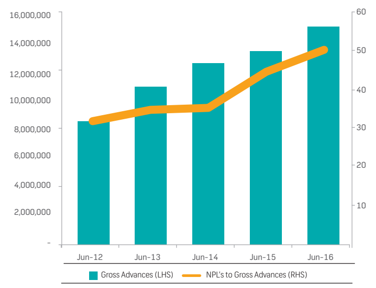
Profit After Tax vs Cost-To-Income Ratio



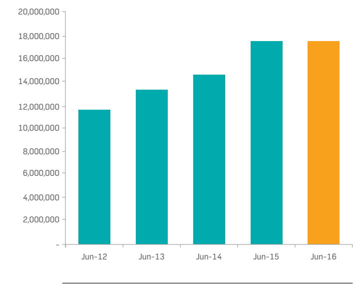
Non-Interest Revenue vs Non-Interest Expenses



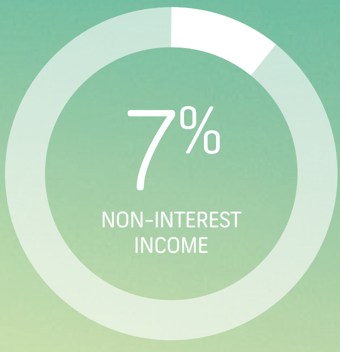
Gross Advances VS NPLs to Gross Advances



Deposits



HIGHLIGHTS



AUDITED SUMMARISED **CONSOLIDATED RESULTS – INDEPENDENT AUDITOR'S OPINION**

for the year ended 30 June 2016

Deloitte & Touche, First National Bank of Botswana Limited's independent auditors, have audited the consolidated financial statements of First National Bank of Botswana Limited from which the summarised consolidated financial results have been derived, and have expressed an unmodified audit opinion on the consolidated financial statements.

The summarised consolidated financial results comprise the summarised consolidated statement of financial position at 30 June 2016, summarised consolidated income statement, summarised consolidated statement of other comprehensive income, summarised consolidated statement of changes in equity and summarised consolidated statement of cash flows for the year then ended, and related notes. The audit report on these summarised consolidated financial statements and the audit report on the consolidated financial statements are available for inspection at First National Bank of Botswana Limited's registered office. The auditor does not necessarily report on all of the information contained in this announcement. For a better understanding of the Group's financial position and the results of its operations for the year and the scope of the audit engagement, the summarised consolidated financial results should be read in conjunction with the audited consolidated financial statements from which the summarised consolidated financial results were derived and the audit report thereon. The audit of the summarised consolidated financial statements was conducted in accordance with International Standards on Auditing.

FORWARD-**LOOKING STATEMENTS**

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's auditors.

SUMMARISED CONSOLIDATED **STATEMENT OF COMPREHENSIVE INCOME**

	Year ended 30 June 2016 Audited P'000	Year ended 30 June 2015 Audited P'000	% Change
Interest income and similar income	1,308,394	1,288,434	2
Interest expense and similar charges	(363,565)	(415,321)	(12)
Net interest income before impairment of advances	944,829	873,113	8
Impairment of advances	(228,570)	(201,068)	14
Net interest income after impairment of advances	716,259	672,045	7
Non-interest income	926,949	862,386	7
Income from operations	1,643,208	1,534,431	7
Operating expenses	(520,379)	(396,965)	31
Employee benefit costs	(439,954)	(368,187)	19
Profit before indirect taxation	682,875	769,279	(11)
Indirect taxation	(23,863)	(12,776)	87
Profit before direct taxation	659,012	756,503	(13)
Direct taxation	(155,121)	(165,020)	(6)
Profit for the year attributable to owners of the parent	503,891	591,483	(15)
Earnings per share (thebe) (based on weighted average number of shares outstanding)	19.81	23.25	(15)
Diluted earnings per share (thebe) (based on weighted average number of shares in issue)	19.81	23.25	(15)
Average number of shares outstanding takes into account 20 million shares held by the FNBB Employees Share Participation Trust			

SUMMARISED CONSOLIDATED **STATEMENT OF OTHER COMPREHENSIVE INCOME**

	Year ended 30 June 2016 Audited P'000	Year ended 30 June 2015 Audited P'000	% Change
Profit for the year	503,891	591,483	(15)
Other comprehensive loss	(5,332)	-	
Net losses on property revaluation	(6,836)	-	
Deferred income tax	1,504	-	
Total comprehensive income for the year attributable to owners of the parent	498,559	591,483	(16)

RATIOS AND **MARKET INFORMATION**

		Year ended 30 June 2016 Audited	Year ended 30 June 2015 Audited	% Change
	Dividend per share (thebe)	11.00	16.00	(31)
	Dividend cover (times)	1.5	1.4	7
*	Cost to income ratio (percent)	52.6	44.8	17
**	Return on equity (percent)	20.2	25.0	(19)
	Return on average assets (percent)	2.4	3.1	(23)
	Capital adequacy ratio (percent)	16.38	18.99	(14)
	Closing share price (thebe)	340	393	(13)
	Price earnings ratio	17.2	16.9	2

* Cost to income ratio is based on total non-interest expenditure including indirect taxation (Value Added Tax).

** Return on shareholders' funds is annualised and includes proposed dividend (dividend reserve).

SUMMARISED CONSOLIDATED **STATEMENT OF FINANCIAL POSITION**

	At 30 June 2016 Audited P'000	At 30 June 2015 Audited P'000	% Change
ASSETS			
Cash and short term funds	3,651,793	4,371,324	(16)
Derivative financial instruments	76,646	26,716	187
Advances to banks	324,960	640,000	(49)
Advances to customers	14,386,819	12,846,481	12
Investment securities	2,447,230	2,256,337	8
Current taxation	99,966	46,832	113
Due from related companies	6,324	6,319	0
Accounts receivable	376,245	211,080	78
Property and equipment	495,692	540,393	(8)
Goodwill	26,963	26,963	-
Total assets	**21,892,638**	**20,972,445**	**4**
EQUITY AND LIABILITIES			
Liabilities			
Deposits from banks	300,166	199,334	51
Deposits from customers	17,063,756	17,233,721	(1)
Accrued interest payable	30,553	88,895	(66)
Derivative financial instruments	42,631	13,796	209
Due to related companies	124,726	11,673	968
Creditors and accruals	429,680	360,109	19
Provisions	68,127	61,949	10
Borrowings	1,094,239	395,376	177
Current taxation	898	650	38
Deferred taxation	203,509	160,956	26
Total liabilities	**19,358,285**	**18,526,459**	**4**
Capital and reserves attributable to ordinary equity holders			
Stated capital	51,088	51,088	-
Reserves	2,329,443	2,112,891	10
Dividend reserve	153,822	282,007	(45)
Total equity	**2,534,353**	**2,445,986**	**4**
Total equity and liabilities	**21,892,638**	**20,972,445**	**4**
CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)			
Undrawn commitments to customers	1,498,117	1,588,479	(6)
Guarantees and letters of credit	1,097,757	984,333	12
Total contingencies and commitments	**2,595,874**	**2,572,812**	**1**

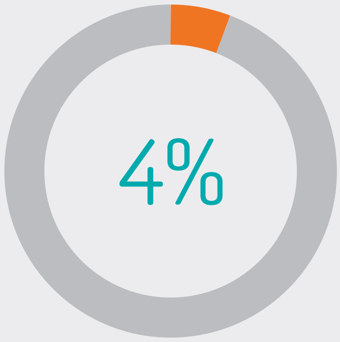
Refer to Appendix 1 for further disclosure on the fair value of financial instruments.

TOTAL BORROWINGS

P1094 million

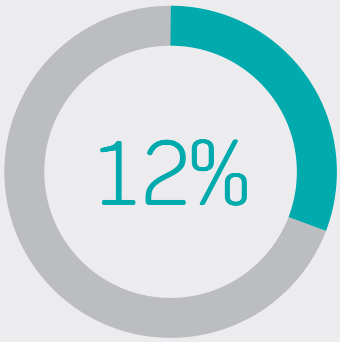
Borrowings grew by 177% over the period, due to success of a bond issue.

BALANCE SHEET GROWTH



In an environment of limited lending and investment opportunities, the Group made deliberate strategy of focusing on balance sheet efficiencies.

GROWTH IN ADVANCES



Advances posted a growth of 12% outpacing market growth of 8% and making up 66% of the total assets.

SUMMARISED CONSOLIDATED **STATEMENT OF CHANGES IN EQUITY**

	Stated capital P'000	Other non-distributable reserves P'000	Equity settled employee benefits reserve P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 1 July 2014 (Audited)	51,088	57,257	18,906	1,854,722	282,007	2,263,980
Profit for the year	-	-	-	591,483	-	591,483
Dividends paid - 2014 final	-	-	-	-	(282,007)	(282,007)
Dividends paid - 2015 interim	-	-	-	(128,185)	-	(128,185)
Dividends proposed - 2015 final	-	-	-	(282,007)	282,007	-
Recognition of share-based payments	-	-	715	-	-	715
Transfer from equity-settled employee benefits reserve	-	-	(5,051)	5,051	-	-
Transfer from revaluation reserve	-	(2,068)	-	2,068	-	-
Balance at 30 June 2015 (Audited)	**51,088**	**55,189**	**14,570**	**2,043,132**	**282,007**	**2,445,986**
Profit for the year	-	-	-	503,891	-	503,891
Other comprehensive loss for the year		(5,332)				(5,332)
Dividends paid - 2015 final	-	-	-	-	(282,007)	(282,007)
Dividends paid - 2016 interim	-	-	-	(128,185)	-	(128,185)
Dividends proposed - 2016 final	-	-	-	(153,822)	153,822	-
Recognition of share-based payments	-	-	-	-	-	-
Transfer from equity-settled employee benefits reserve	-	-	(14,570)	14,570	-	-
Transfer from revaluation reserve	-	(2,855)	-	2,855	-	-
Balance at 30 June 2016 (Audited)	**51,088**	**47,002**	**-**	**2,282,441**	**153,822**	**2,534,353**

SUMMARISED CONSOLIDATED **STATEMENT OF CASH FLOWS**

	Year ended 30 June 2016 Audited P'000	Year ended 30 June 2015 Audited P'000	% Change
Cash flows from operating activities			
Cash generated by operations	980,441	991,144	(1)
Taxation paid	(163,950)	(160,194)	2
	816,491	830,950	(2)
Change in funds from operating activities	(1,976,264)	2,021,930	(198)
Net cash (utilised in) / generated from operating activities	**(1,159,773)**	**2,852,880**	**(141)**
Net cash utilised in investing activities	**(41,928)**	**(51,677)**	**(19)**
Net cash generated from / (utilised in) financing activities	**256,006**	**(485,317)**	**(153)**
Net (decrease) / increase in cash and cash equivalents	**(945,695)**	**2,315,886**	**(141)**
Cash and cash equivalents at the beginning of the year	6,183,534	3,867,648	60
Cash and cash equivalents at the end of the year	**5,237,839**	**6,183,534**	**(15)**
Cash and short-term funds	3,651,793	4,371,324	(16)
Investment in Bank of Botswana Certificates	1,586,046	1,812,210	(12)
	5,237,839	6,183,534	(15)

SEGMENTAL **REPORTING**

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (the Chief Operating Decision-Maker), who is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment. The Group has five main business segments:

- Retail segment - comprising advances and deposits and the revenue flowing from individual customers;
- Business segment - comprising advances and deposits and the revenue flowing from business customers;
- Rand Merchant Bank (RMB) - comprising advances and deposits and the revenue flowing from RMB customers;
- WesBank - comprising vehicle and asset financing; and
- Treasury - manages the Group's liquidity and funding.

The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement.

The Group presents interest income after the cost of funding and interest expenditure after the benefit of funding for each reportable segment.

These are the amounts that are presented to the Chief Executive Officer for management reporting purposes when assessing performance and allocating resources. This presentation is in line with the management approach of presenting segment information. The information provided about each segment is based on the internal reports about segment performance, assets and liabilities, which are regularly reviewed by the Chief Executive Officer.

SUMMARISED **SEGMENTAL REPORTING (AUDITED)**

	Retail P'000	Business P'000	RMB P'000	WesBank P'000	Treasury P'000	Total P'000
30 JUNE 2016 (P'000)						
Interest income	364,926	158,229	26,147	141,370	617,722	1,308,394
Non- interest income	389,591	315,910	218,652	24,033	(21,237)	926,949
Total segment revenue	**754,517**	**474,139**	**244,799**	**165,403**	**596,485**	**2,235,343**
Interest expenditure	34,384	104,472	93,486	(55,689)	(540,218)	(363,565)
Segment operating income before impairments	**788,901**	**578,611**	**338,285**	**109,714**	**56,267**	**1,871,778**
Impairment of advances						(228,570)
Net income after impairment of advances						**1,643,208**
Total other expenditure						(960,333)
Profit before indirect taxation						**682,875**
Indirect taxation						(23,863)
Profit before direct taxation						**659,012**
Direct taxation						(155,121)
Profit for the year						**503,891**
Gross Advances	6,957,248	4,346,564	1,273,861	2,255,021	-	14,832,694
Deposits	3,910,258	6,591,603	4,849,304	-	1,712,591	17,063,756

	Retail P'000	Business P'000	RMB P'000	WesBank P'000	Treasury P'000	Total P'000
30 JUNE 2015 (P'000)						
Interest Income	246,661	119,665	37,347	179,217	705,544	1,288,434
Non - interest income	358,265	312,813	168,809	5,324	17,175	862,386
Total segment revenue	**604,926**	**432,478**	**206,156**	**184,541**	**722,719**	**2,150,820**
Interest expenditure	48,780	113,077	71,594	(91,795)	(556,977)	(415,321)
Segment operating income before impairments	**653,706**	**545,555**	**277,750**	**92,746**	**165,742**	**1,735,499**
Impairment of advances						(201,068)
Net income after impairment of advances						**1,534,431**
Total other expenditure						(765,152)
Profit before indirect taxation						**769,279**
Indirect taxation						(12,776)
Profit before direct taxation						**756,503**
Direct taxation						(165,020)
Profit for the year						**591,483**
Gross Advances	5,229,688	4,478,345	1,381,264	2,080,212	-	13,169,509
Deposits	2,785,599	4,633,035	5,537,518	-	4,277,569	17,233,721

Note: The Group's segmentation model is still undergoing refinements.

GLOBAL ECONOMIC **OVERVIEW**

GLOBAL **ECONOMIC OVERVIEW**

the International Monetary Fund (IMF) has now revised global growth forecasts downwards by 0.1% to 3.1% for 2016 and 3.4% for 2017.

GDP

We project the economic growth to be 3.1% in 2016 and average 4.0% over the next three financial years, driven by a steady recovery in the diamond industry, increased fiscal investment under the Government's Economic Stimulus Package, and the 11th National Development Plan.

GLOBAL ECONOMIES IN **THE EYE OF THE STORM**

Economic growth and real wage increases remain subdued in the face of structural headwinds such as weaker productivity growth, geopolitical tensions, aging populations, slower advances in global trade, rising corporate indebtedness especially in emerging economies, coupled with currency volatility. The fragility of the global economy leaves it vulnerable to event risk. The recent decision by the United Kingdom (UK) to leave the European Union (EU) has impacted on the economic outlook for both the UK and EU. As one of the main drivers of global growth, any increase in the challenges faced by Europe as a whole will have adverse global implications. Consequently, and despite some positive indications in the United States (US) economy, the International Monetary Fund (IMF) has now revised global growth forecasts downwards by 0.1% to 3.1% for 2016 and 3.4% for 2017.

Potential for further shocks to global recovery will pivot around a four wheel uncertainty of China's rebalancing and rising debt stock to GDP, rate hikes by the US Fed leading to rising US capital inflows and further US dollar strength, slower-than-anticipated recovery of commodity prices and, the threat of further EU countries holding exit referendums.

Closer to home, the South African economy contracted in the first quarter of 2016 mainly due to weak commodity prices and the resultant reduction in mining and production activity, coupled with reduced business and both consumer demand and confidence.

Subdued global growth together with the underperformance in the region in the first quarter of 2016, have resulted in forecasts for 2016 South African Gross Domestic Product (GDP) growth being closer to zero. Private business and household spending remain under pressure, while fiscal and monetary policy options have limited capacity to cushion any further negative economic development.

Despite these developments, the South African manufacturing index is improving and with the recent municipal elections having been extremely well managed and successfully concluded, there is a cautiously positive mood in the country. Over recent weeks the Rand, which is an actively traded currency on world markets, has also strengthened, partially due to it having been traded to unrealistic lows and partially due to recent trade surpluses recorded.

Under these circumstances, and with South Africa being one of our major trading partner we remain cautiously optimistic for a slow, but gradual recovery in the economy. Any robust growth in the medium-to long-term will be determined by the increase in the workforce and the rise in productivity as well as real investment in the economies of our major trading partners.

BOTSWANA IS WEATHERING THE STORM **– BUT NOT SHELTERED FROM IT**

GDP

Growth returned to positive territory in the first quarter of 2016 with real GDP growth rising to 2.8% year-on-year from 1.9% in the fourth quarter of 2015. The pick-up was driven by growth of 4.4% year-on-year in non-mining private sector GDP, mainly due to improvements in the supply of electricity and water and positive spill-overs from the nascent mining sector recovery to related sectors such as logistics, excavation and manufacturing. We project the economic growth to be 3.1% in 2016 and average 4.0% over the next three financial years, driven by a steady recovery in the diamond industry, increased fiscal investment under the Government's Economic Stimulus Package, and the 11th National Development Plan. Further improvements in the supply side of water and electricity are also expected to support business confidence and economic expansion.

Risks to economic growth remain as the direction of growth leaves the economy vulnerable to medium and long-term exposures with household consumption growth at 45% of total GDP against rising unemployment and eroded purchasing power. Diversification remains a priority as export concentration depends heavily on diamonds at over 80% of exports, and this despite the services sector having led growth by over 50% in the past decade.

In general, growth is expected to remain below trend as the lagged impact of last year's mining slowdown affects related industries such as logistics, excavation and equipment supplies. Though less stringent, continued water and electricity constraints exacerbated by drought conditions, weigh on the agricultural and non-mining private sectors.

In order to increase the resilience of the economy and improve growth over the medium-term, significant progress has to be made with business support to achieve Government's economic diversification drive, as well as develop a thriving and robust private sector. A difficult task with declining fiscal revenues (relative to GDP) and continued high expectations of Government providing infrastructure and services.

INFLATION

With over 50% of Botswana's consumption imports coming from South Africa, Rand weakness has helped reduce imported inflation. Despite the local drought, food inflation in Botswana has only risen gradually, registering below 3% compared to above 10% in South Africa as foreign exchange pass-through with the Pula strengthening against the Rand.

Inflation is therefore expected to remain within the Bank of Botswana's 3% - 6% target range throughout our forecast horizon, averaging 3.3% in 2016 and 4% in the medium term. While cost push price pressures could rise (water and electricity levies, additional levies on alcohol, drought-induced increase in food prices and imported inflation from South Africa), a wide output gap and weak demand-pull inflation should keep inflation constrained.

INTEREST RATES

Weak growth and low inflation has allowed the Bank of Botswana's policy stance to remain accommodative due to weak demand prospects, pressure on household purchasing power and low levels of investment and credit growth. The Central Bank has cut rates by a cumulative 150bp in the past year, and further reduced them by 50bp in August 2016. We subsequently expect the Bank of Botswana to remain accommodative through to 2017 by keeping rates at current levels, with little room for further easing.

CREDIT GROWTH

Market credit extension was softer in the second half of 2015, averaging 7.1% compared to 13.5% in the first half of 2015. As at June 2016, year-on-year credit growth averages 8% thus posting a decline from the 13.5% same time last year. The softer credit extension is a reflection of the structural headwinds as economic and investment growth remains muted. Businesses mainly saw limited expansion opportunities and muted demand for viable working capital facilities. Household credit extension was curtailed by existing debt levels and threat to real income levels.

We expect credit growth at 10% in 2016 with the increased focus by financial institutions on stricter credit extension criteria. Business credit extension growth is expected to recover slowly in line with economic growth.

FINANCIAL **PERFORMANCE**

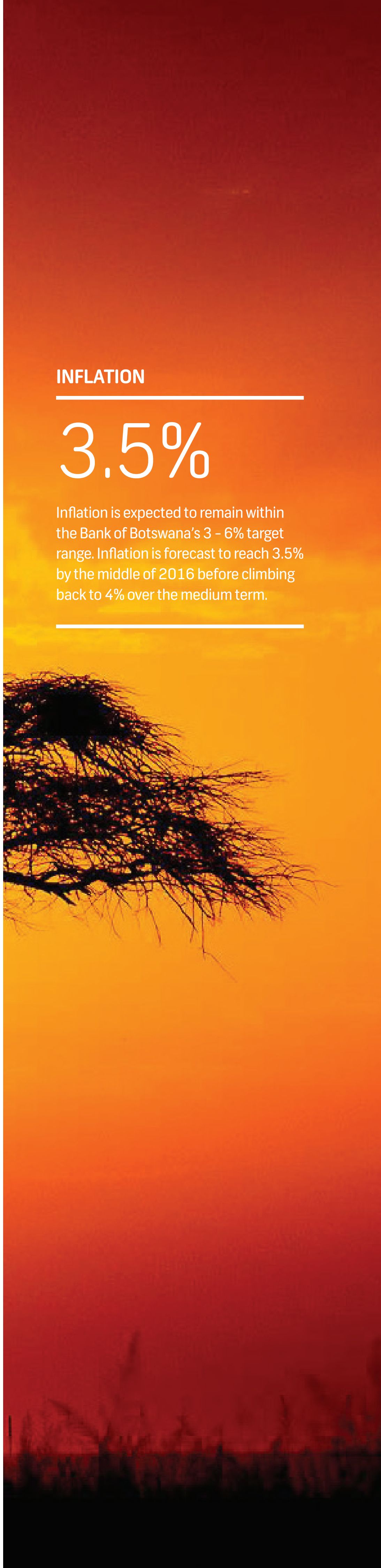
STATEMENT OF FINANCIAL POSITION

In an environment of limited lending and investment opportunities, the Group made a deliberate strategy of focusing on balance sheet efficiencies. This focus resulted in reduced deposits from customers which declined by 1%, and in changes in the deposit mix in order to manage interest expenditure and elongate funding term to address the maturity profile. Although showing overall decline in deposits from customers, current, call and fixed deposits all grew while notice deposits and foreign currency deposits declined. Borrowings grew by 177% over the period, due to the success of a bond issue. This funding mix reflects our success in achieving diversification of both source and term funding, so as to mitigate future liquidity and concentration risk. The Group's total balance sheet grew by 4%, with market share of deposits declining year-on-year while the loan-to-deposit ratio increased from 75% to 84%.

Advances posted a growth of 12%, outpacing market growth of 8% and making up 66% of the total assets. Growth emanated from the Retail segment and in particular the term loans product. WesBank, the vehicle asset finance product of the Group, also posted good growth over the period under review. Conversely, the Business and RMB advances books reduced by 3% and 8% respectively in line with general business credit trends and in the number of viable lending opportunities. Notwithstanding, the Group maintained its overall market share in advances. The improved balance sheet efficiency is also evident from the significant decrease in non-interest bearing assets in the form of cash and cash equivalents which declined by 15%, while excess liquidity in investment securities posted moderate growth of only 8%.

INCOME STATEMENT

Growth in net interest income of 8% has been spurred by the reduction in interest expense as the market stabilised from a strain in liquidity in the previous year by our success in diversifying funding sources to optimise the Bank's balance sheet. Interest income, on the other hand saw growth of only 2%, as the opportunities for advances growth emanated from the lower-yielding asset classes. The cumulative rate cut of 100bps in February 2015 and a further 50 bps in August 2015, have put a strain on the top line and contributed to the low growth in interest income from advances. However, this position remains satisfactory and reflects our focus on improving the quality of the book, although priced at lower margins. Despite deliberate reduction



INFLATION

3.5%

Inflation is expected to remain within the Bank of Botswana's 3 - 6% target range. Inflation is forecast to reach 3.5% by the middle of 2016 before climbing back to 4% over the medium term.

in credit risk, impairments grew by 14% year-on-year, driven mainly by specific impairments from business closures and a difficult business environment, but in trend terms, it is a significant improvement from the impairments growth of 64% experienced in the prior year. Furthermore, a more conservative approach to portfolio provisioning was introduced as a prudent precaution, and focus on collections remains.

In a low-interest environment, income diversification continues to be a focus area. To this end, stimulation of transactional volumes has been a key priority with significant growth being recorded on FNB Connect at 94%, Online Banking at 15%, Mobile banking at 16% as well as new offerings such as Hyphen which have also gained momentum. Growth in the branch network volumes, the more expensive channel for our customers, showed lower growth levels of only 1%, reflecting success in our strategy to encourage customers to make more use of the electronic products in favour of visiting branches, so as to pass on real savings to our customers in terms of bank charges. The Bank grew its customer base by 5.8% in customer numbers and 8.1% growth in account numbers, together with improved cross-selling of a wider product range. Acccordingly, and despite the effective continuation of a moratorium on increases to bank charges, the non-interest income has increased by 7%, due entirely to increasing the volume of transactions and the range of products on offer.

Employee benefit costs grew by 19%. Notwithstanding the difficult economic environment significant investments have been made in our employees. Firstly, investing in leadership and development talent which is a key to ensuring continued innovation and sustained success of the Group. Secondly, within the highly regulated environment that banks around the world operate in and the extensive legislation that is necessary to ensure the appropriate level of internal controls and oversight, considerable focus has been devoted to building the governance and support structures with the right people that are able to support the growth of the Bank. In today's rapidly and ever changing environment this is, and continues to be an important focus.

The Bank's improvement of its operating systems and investment in infrastructure has resulted in further increases in other operating costs. Enhancements in the year included the improvement of existing infrastructure such as point of sale machines, refurbishment of 4 branches in the last 18 months as well as the rollout of ATMs with deposits functionality from 20 to 40 as at year end. This ongoing investment is critical in ensuring that we continue to provide world class services and environments in which our clients are serviced, maintaining our competitiveness in this space. It is in the light of these infrastructure enhancements and systems upgrades that the evaluation of existing assets was undertaken leading to a change in estimate of the depreciation for some of our plant and equipment.

The investment in infrastructure, increased depreciation of assets and regulatory processes enhancements have contributed to the growth of our operating expenses of 31%.

As a result of the above, profit before tax declined by 13% from the prior year. The fundamentals of the Bank remain strong with return on equity at a healthy 20%.

LOOKING **AHEAD**

Botswana growth is expected to remain below trend as the lagged impact of last year's mining slowdown affects related industries (such as logistics, excavation and equipment supplies) and continued water and electricity constraints, exacerbated by the drought, weigh on the agricultural and non-mining private sectors together with slow economic diversification. Against the backdrop of subdued economic expectations, the Group remains confident that opportunities exist in selective markets. At the same time, internal focus on people strategy of becoming the employer of choice in the market is critical. In addition, a number of operational initiatives are being driven simultaneously to improve the internal processes to make banking more effective and efficient. In conjunction with this, the Group is implementing various new processes to comply with changes in the regulatory environment. The Group will continue to invest in infrastructure, notably branches as well as other channels such as ATM with deposit machines and Point of Sale machines.

CAPITAL **MANAGEMENT**

The Group's objectives when managing capital, which is a broader concept than "equity" as shown on the statement of financial position, are to comply with the Bank of Botswana, to safeguard shareholders' returns, maintain the ability to continue as a going concern and to ensure the Bank has a strong capital base to support growth and development of the business.

The Group continues to manage its capital in line with the Board's approved capital management framework and to prepare for the transition from Basel 2 to Basel 3, being the new Bank of Botswana requirements which were adopted in Botswana in 2016.

As part of our capital management strategy, we assess on a regular basis if the Group is appropriately capitalised from an economic risk point of view. Economic capital is defined as the capital which the Group must hold, commensurate with its risk profile, under severe stress conditions. This is to give comfort to stakeholders that the Bank will be able to discharge its obligations to third parties in accordance with an indicated degree of certainty even under stress conditions and would continue to operate as a going concern.
The regulatory capital requirements are strictly observed when managing economic capital.

The Group's capital adequacy ratio before dividend, has been maintained at 16.38% as at 30 June 2016, and is above the Bank of Botswana required ratio of 15%.

In line with the impact of the market conditions of the Group's profitability, the Directors believe that it is appropriate to continue with the prudent approach to capital management. On this basis, the Directors propose a final dividend of 6.0 thebe per share.

EVENTS AFTER **REPORTING DATE**

There were no material events that occurred after the reporting date that require adjustment to the amounts recognised in the financial statements or that require disclosure.

CORPORATE **GOVERNANCE**

The Board and management are responsible for ensuring that the Group's operations are conducted in accordance with all applicable laws and regulations, including the responsibility for ensuring the following:

1. Adequate and effective management of corporate governance and risk and in accordance with recommended current best practice;
2. Maintenance of appropriate internal controls including the reporting of material malfunctions;
3. The Group's continued capability to operate as a going concern.

The Board comprises a majority of independent, non-executive Directors and meets regularly, overviews executive management performance and retains effective control over the Group. The Board is assisted by committees, which are responsible for different aspects of governance.

The main Board committees include Audit, Credit, Directors Affairs and Governance, Remuneration and Risk, Capital and Compliance.

SOCIAL **RESPONSIBILITY**

The Group remains aware of its social responsibility to the community, which function it performs through the FNBB Foundation.

The FNBB Foundation, which has an independent board, supporting educational, arts and culture, sports and recreation, social welfare development and environmental sustainability in Botswana by identifying beneficiaries who are in need and deserving of assistance, and where such assistance will have real and lasting benefits.

FNB Botswana has committed to contributing up to 1% of its profit after tax to the Foundation. Since the inception of the Foundation in 2001, the Group has made grants in excess of P50 million to the Foundation, and in turn, the Foundation has approved donations and pledges to qualifying beneficiaries. Details of the foundation and criteria for eligibility can be found at the Group's website: www.fnbbotswana.co.bw.

DECLARATION **OF DIVIDEND**

Notice is hereby given that a final dividend of 6.0 thebe per share has been declared for the year ended 30 June 2016. The dividend will be paid on or about 28 October 2016 to shareholders registered at the close of business on 7 October 2016.

In terms of the Income Tax Act (Cap 52.01) as amended, withholding tax at the rate of 7.5% will be deducted by the Group from gross dividends. If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 11 October 2016.

For and on behalf of the Board.

J K Macaskill	S L Bogatsu
Acting Chairman	Chief Executive Officer

Gaborone, 19 August 2016

APPENDIX 1

FAIR VALUE OF **FINANCIAL INSTRUMENTS**

The fair value of a financial instrument is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is an assumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

The Group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item.

The financial instruments recognised at fair value have been categorised into the three input levels of the International Financial Reporting Standards (IFRS) fair-value hierarchy as follows:

LEVEL 1

Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions.

LEVEL 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data.

LEVEL 3

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities.

The following represents the fair values of financial instruments carried at amortised cost on the statements of financial position:

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair value P'000	Amortised cost P'000
GROUP 2016					
ASSETS					
Advances	–	3 299 433	10 714 806	14 014 239	14 687 280
Accounts receivable	–	376 245	–	376 245	376 245
Total financial assets at amortised cost	**–**	**3 675 678**	**10 714 806**	**14 390 484**	**15 063 525**
Deposits	–	17 018 321	–	17 018 321	17 063 756
Long term borrowings	–	979 364	–	979 364	982 015
Creditors and accruals	–	429 680	–	429 680	429 680
Total financial liabilities at amortised cost	**–**	**18 427 365**	**–**	**18 427 365**	**18 475 451**

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair value P'000	Amortised cost P'000
GROUP 2015					
ASSETS					
Advances	–	2 435 366	10 209 893	12 645 259	12 959 955
Accounts receivable	–	211 080	–	211 080	211 080
Total financial assets at amortised cost	**–**	**2 646 446**	**10 209 893**	**12 856 339**	**13 171 035**
Deposits	–	17 253 174	–	17 253 174	17 233 721
Long term borrowings	–	322 652	–	322 652	321 473
Creditors and accruals	–	360 109	–	360 109	360 109
Total financial liabilities at amortised cost	**–**	**17 935 935**	**–**	**17 935 935**	**17 915 303**

There have been no transfers between levels of the fair value hierarchy used in measuring financial instruments.

The following represents the fair values of financial instruments carried at fair value on the statements of financial position:

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
GROUP 2016				
ASSETS				
Financial assets held for trading	–	580 735	–	580 735
Designated at fair value	–	–	145 414	145 414
Available for sale financial assets	–	1 586 046	–	1 586 046
Non-financial assets	–	325 308	–	325 308
Total assets	**–**	**2 492 089**	**145 414**	**2 637 503**
Financial liabilities held for trading	–	34 310	–	34 310
Designated at fair value through profit or loss	–	–	112 224	112 224
Total liabilities	**–**	**34 310**	**112 224**	**146 534**

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
GROUP 2015				
ASSETS				
Financial assets held for trading	–	306 281	–	306 281
Designated at fair value	–	–	209 554	209 554
Available for sale financial assets	–	1 812 210	–	1 812 210
Non-financial assets	–	331 062	–	331 062
Total assets	**–**	**2 449 553**	**209 554**	**2 659 107**
Financial liabilities held for trading		13 796		13 796
Designated at fair value through profit or loss	–	–	73 903	73 903
Total liabilities	**–**	**13 796**	**73 903**	**87 699**

FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below sets out the valuation techniques applied by the Group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Derivative financial instruments					
- Option contracts	Level 2	Option pricing model	The Black Scholes model is used.	Strike price of the option; market related discount rate; forward rate and cap and floor volatility.	Not applicable
- Futures contracts	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
- Swaps	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
- Forward rate agreements	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates and curves	Not applicable
- Forward contracts	Level 2	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
- Credit derivatives	Level 2 and 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Where prices are obtainable from the market, individual credit spreads are used.	Market interest rates and curves	Credit inputs
Loans and advances to customers					
- RMB investment banking book held at fair value	Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate. To calculate the fair value of loan book the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance.	Market interest rates and curves	Credit inputs
- Other loans and advances	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs

FINANCIAL RISK MANAGEMENT
FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below sets out the valuation techniques applied by the Group for recurring fair value measurements of assets and liabilities categorised as Level 2 and Level 3 in the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Investment securities and other investments					
- Equities/bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. Level 1). However if the market is not active and the listed price is not representative of fair value, these are classified as Level 2 and a valuation technique is used, for example the discounted cash flow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
- Unlisted bonds	Level 2 and Level 3	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cash flows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs
- Negotiable certificates of deposit	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and curves	Not applicable
- Treasury Bills	Level 2	Bank of Botswana quoted prices	Bank of Botswana quoted prices	Market interest rates and curves	Not applicable
Deposits					
- Call and non-term deposits	Level 2	None - the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed	Not applicable
- Other deposits	Level 2 and Level 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs
Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates and curves	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2 and Level 3	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs.	Market interest rates and curves	Credit inputs

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DIRECTORS:

Peter D Stevenson (Chairman),
Steven L Bogatsu (CEO - Executive Director)
Jabulani R Khethe (Non-Executive Director), John K Macaskill (Acting Chairman)
Dorcas Kgosietsile (Non-Executive Director), Sifelani Thapelo (Non-Executive Director)
Nelson D Mokgethi (Non-Executive Director), Mmasekgoa G Masire-Mwamba (Non-Executive Director)
Michael W Ward (Non-Executive Director), Doreen Ncube (Non-Executive Director)
Richard C Wright (Alternate to CEO)

Log on to **www.fnbbotswana.co.bw** to access our latest and historic financial reports.

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